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"Mergers and Acquisitions in Shaping Financial Performance: An Empirical Analysis of Union Bank of India in Indian Public Sector Banking Landscape"

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Abstract

A study has been conducted on Mergers & Acquisition and its impact on Financial Performance in Banking sectors. The purpose of this paper is to understand the concept and impact of Mergers & Acquisition on the financial performance of public sector banks in India and identify the underlaying reasons, benefits and challenges faced by the banks at the time of Mergers and Acquisitions. The research was carried out using the financial report of the consolidated bank through secondary data. In this study EAGLE Model Framework is used to analyse the financial performance of Union bank of India merged with Andra bank & Corporation bank. This analysis was performed using financial parameters Return of Assets, Non-performing assets, Deposit growth rate, Loan to deposit ratio and Capital Adequacy ratio. In this paper Paired T-Test is used for the hypothesis testing, As a result, the analysis shows that there is an impact on financial performance of merged bank which is increased in the post merged phase.

KEYWORD: *Mergers & Acquisitions, Financial Performance, PSB, Consolidation.*

1. Introduction

Indian banking industry is categorized into scheduled and non-scheduled banks. In 1934 under the act of RBI-Reserve bank of India all banks included in Second Schedule are Scheduled Banks. These banks consist Commercial Scheduled Banks and Co-operative Scheduled Banks. The Indian banking industry observed a flurry of activity in the merger space. One of huge consolidations of the sector, on April 1, 2020 ten PSBs are merged into four Banks. It is biggest- ever consolidation exercise involving PSBs to make them globally competitive, especially at a time when sector has shown significant weakness. Not only number of PSBs reduced due to the merger, but it also added strength to the four merged banks. Six banks, which ceased to exist, merged with four anchor banks. The primary objective is to understand the idea of Mergers and Acquisition and analysing the financial performance of Merged PSBs in India. It is completely focused on evaluating performance of selected banks using EAGLE Model Framework, which analyses the pre- and post-merger improvement of the consolidated Indian banks.

2. Literature review

Dr. Srinivasa Rao Kasisomayajula (2022) – The study concentrated on concept Mergers & Acquisitions, also why Mergers & Acquisitions occurs and specific reasons for it and analyze motive of M&A in banking industry. This study was to understand prominence of M&A and its impacts on banking sector. The researcher includes details about the reasons for mergers, list of mergers in banking industry and its advantages. It is also focused on comparing the financial parameters of the banks. at end this study states that strong banks should merge with strong banks to have competitive advantages against foreign banks and to enter the global market.

Debi Prasad Satapathy, Dr Promod Kumar (2022) –Highlighted on Mergers & Acquisitions of ten sample listed corporations that underwent Mergers & Acquisitions between 2010 – 2017. The aim of Research is to look into effects of bank efficiency on ten different banks. It is also looked on efficiency score of the acquiring banks and tobit regression for the bank efficiency and determinants. The researcher applies DEA model to estimate the banks technical and scale efficiency and viewed the list of variables like ROA, SIZE, AGE, RISK and leverages etc. the efficiency study assists management terms in quantifying the banks relative performance in compare to identifying emphasis areas for obtaining firm's long-term growth.

Thippeswami. H (2022) – attempted to know operations of banks by using the camel model from the year (2014-15 to 2018-19) to know the performance of Canara Bank & syndicate bank. This paper focus on the objectives to recommend and suggest for financial improvement of canara bank. The researcher made use of 15 financial ratios and five year average has been calculated by using simple arithmetic mean and one way ANOVA. At the end it is certified by this research that syndicate banks performance was best than Canara Bank before merger.

Abhi Dutt Sharma, Dr Pradeep Kumar (2022) –revels the merger financial performance of Canara Bank after merged with syndicate bank. The primary goal of this research is to compare performance of banks before-and after-merger. This study completely involving secondary data and focused on financial parameters of the bank by using the comparative statement of Canara Bank for the year 2020- 21 & 2021 & 22 and identifying the key ratios nand pre & post ratio value of Canara Bank. At end it is concluded that mergers & acquisitions help the banks to get competitive advantage in the corporate world.

Roopesh, Sandhya (2022): studied the financial stability, operational flow and synergy advantages of the banks when it goes through mergers and acquisition vacillate the operations of banks. This research focused on profitability, solvency, investment and liquidity in pre-& post-merger period and this is the attempt form researcher to analyze the reasons behind mergers, Acquisition & Success rate. The goal of paper is to know impacts of synergy on the functioning of banks, exploratory method is utilized for the purpose of study using secondary data available in bank website, journals and financial reports of respected banks. The research was done by using comparative analysis of selected PSBs and it is resulted by stating no significant changes in pre- Post merger & Acquisition.

Brijesh Yadav, (2022), Analysed the concept of mergers and Acquisitions of Indian commercial bank. An analysing of efforts of financial performance of the three sectors shows that in comparison to the past years, the part of tertiary sector to economy, the last contribution of banking industry is 34%. The primary goal of paper is study and analysis the concept and legal framework of M&As of the selected Commercial Banks in India, finding out and analysis efficiency of selected banks in India before (pre-merger) and after (post-merger) merger. For the paper secondary data collection tools is used and it is resulted as the M&A is helping banks to make profit hence this helps in organization growing and expanding rapidly and acquire large market share

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3. Research gap

A review of literature has displayed that majority of research work was concentrated on performance of PSBs in pre and post consolidation period. Only few research papers focused on Merits, demerits, issues and challenges of merged PSBs. This paper deals with the M&A & effects of mergers & acquisition on Financial performance of merged Union Bank of India using EAGLE Model Framework. The study also looks to explore underlying-reasons for mergers & acquisitions of PSBs in India.

4. Statement of the Problem:

This study focused to analyze the effects of consolidation on performance of merged PSB's. The study will concentrate on the problems occurred at the phase of consolidation of banks. It gives the view of profitability and financial position of the consolidated banks.

5. Need for the study

Consolidation involving in PSB's is essential of several reasons like it provides insights about dynamics of mergers within the banking sector. It also allows in analyzing the issues raised, challenges faced by consolidated banks at the period of mergers.

6. Objectives of the study

1) To understand the basic concept of Mergers & Acquisitions in Banking Industry.
2) To study the concept & strategic reasons behind consolidation of PSBs.
3) To compare the financial performance during pre & post consolidation period using EAGLE Model Framework.
4) To analyze impact of consolidation on merged PSBs in terms of profitability & financial position.

7. Scope of the study

This particular study targets to analyze 7 years financial statements available on website of Union Bank of India only.

8. Research methodology

The following research is performed with secondary data for evaluating performance of Consolidated banks using EAGLE Model Framework.

Statistical tool: Paired T-test

Statement of hypothesis:

H0 – There is no significant difference in financial performance of consolidated bank in India during the pre-and post-merger period.

H1 – There is a significant difference in financial performance of consolidated bank in India during the pre-and post-merger period.

TYPE OF RESEARCH: Quantitative with Descriptive Analysis.

Data collection method: -The study was performed on secondary source of data through books, articles, journals, e-sources and the relevant case laws.

9. Limitations:

- This project is performed with a time constraint of only six weeks.
- Facts and figures of this research is on the data available on the website of the PSB's
- Developments in recent period are not taken into the consideration of this study.

Consolidation of UBI:

ANCHOR-BANK	MERGED BANKS
Union Bank of India-UBI.	Andra Bank & Corporation Bank.

Table-01 Showing Consolidation of UBI

UNDERLYING REASONS OF MERGERS & ACQUISITIONS OF PSBs:

Merger of weak banks: The action of merger of banks which are weak with banks which are strong was supported in order to facilitate stability to banks which are struggling but Narasimhan committee-(NC) conflicted with this activity. They said that mergers can diversify risk management.

- Rise in market competition:
- Economies of scale:
- Skill & Talent:
- Technology and Products:
- Positive Synergies:
- Ill performing banks managed to survived in post-merger phase and developed branch network geologically.
- Larger customer units i.e., through rural expansion and increase in market share.
- Achievement of infrastructure & restrict competition

BENEFITS OF CONSOLIDATION OF PSBs:

- Larger Banks capable of facing global competition, and able to be a prime part of the international banking system. Currently, the SBI-State Bank of India is in the list of top fifty banks globally.
- Merger will lead to better NPA and Risk management - Bad Loans/NPAs are one of biggest problems of our banking system which is creating hindrance in growth of economy as a whole.
- Merger will helps improving the professional standards
- Decisions on High Lending needs can be taken honestly

CHALLENGES OF CONSOLIDATION OF PSBs:

- Decision Making: Banks that are into merger can be seen getting slowdown in taking decisions at top level management Managers of such banks will put all burden on bank employees it will lead to gradual reduction in credit delivery in banks.

- ❖ Weak banks would make an unhealthy impact on activities of stronger one after the merger.
- ❖ Valuation of Intangible Assets: Valuation of assets of target bank is critical factor for success of consolidation.
- ❖ Geographical Synergy
- ❖ Human Resource Issues
- ❖ Cultural Issues
- ❖ Integration of Information Technology
- ❖ Customer retention.

The Expansion of EAGLE MODEL:

E	EARNINGS ABILITY
A	ASSETS QUALITY
G	GROWTH
L	LIQUIDITY
E	EQUITY

Table:02 Showing the Expansion of the EAGLE Model Framework

10. ANALYSIS AND INTERPRETATION:

Table:03 Showing The Eagle Model Analysis Of UBI-Union Bank of India.

PARTICULARS		**PRE-MERGER**			**MERGED YEAR**	**POST-MERGER**		
		2017-2018	**2018-2019**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**	**2023-2024**
E	Return On Assets	-1.07%	-0.59%	0.53%	0.27%	0.47%	0.69%	1.03%
A	NPA	8.4%	6.8%	4.62%	3.68%	2.40%	1.70%	1.30%
G	Deposit Growth Rate	7.92%	1.81%	8.35%	104.98%	11.75 %	8.26%	9.28%
L	Loan To Deposit Ratio	78.18 %	79.27%	78.00%	71.06%	69.90 %	73.74 %	75.65 %
E	Capital Adequacy Ratio	11.5%	11.78%	12.81%	12.56%	14.52 %	16.04 %	16.97 %

***Source:** Secondary data

HYPOTHISIS TESTING:

PAIRED-SAMPLE TEST OF MEGA COSOLIDATED BANKS:									
PARTICULARS	PAIRED DIFFERENCES				t	df	SIG	P-VALUE	RESULT
	MEAN		VARIANCE						
	PRE	POST	PRE	POST					
UNION BANK OF INDIA									
Return On Assets	-0.37	0.73	0.67	0.07	-3.54	2	0.15	0.07	H0 Rejected
Net Non-Performing Assets	6.60	1.8	3.60	0.31	6.10	2	0.15	0.02	H0 Rejected
Deposit Growth Rate	6.02	9.76	13.38	3.22	-2.34	2	0.15	0.14	H0 Rejected
Loan To Deposit Ratio	78.48	73.09	0.47	8.57	3.14	2	0.15	0.08	H0 Rejected
Capital Adequacy Ratio	12.03	15.84	0.47	1.52	-9.58	2	0.15	0.01	H0 Rejected

Table:04 Showing the Hypothesis Testing of UBI

Source: Secondary data

10.Interpretation

On the basis of Earning ability:

H0 – There is no significant difference in Earning ability of Union Bank of India during the pre- and post-merger period.

H1 – There is a significant difference in Earning ability of Union Bank of India during the pre- and post-merger period.

0.07 is lesser than the alpha value that is 0.15 hence Reject the Null Hypothesis.

On the basis of Assets quality:

H0 – There is no significant difference in Assets quality of Union Bank of India during the pre- and post-merger period.

H1 – There is a significant difference in Assets quality of Union Bank of India during the pre- and post-merger period.

0.02 is lesser than the alpha value that is 0.15 hence Reject the Null Hypothesis.

On the basis of Growth:

H0 – There is no significant difference in Growth of Union Bank of India during the pre- and post-merger period.

H1 – There is a significant difference in Growth of Union Bank of India during the pre- and post-merger period.

0.14 is lesser than the alpha value that is 0.15 hence Reject the Null Hypothesis.

On the basis of Liquidity:

H0 – There is no significant difference in Liquidity of Union Bank of India during the pre- and post-merger period.

H1 – There is a significant difference in Liquidity of Union Bank of India during the pre- and post-merger period.

0.08 is lesser than the alpha value that is 0.15 hence Reject the Null Hypothesis.

On the basis of Equity Quality:

H0 – There is no significant difference in

Equity Quality of Union Bank of India during the pre- and post-merger period.

H1 – There is a significant difference in Equity Quality of Union Bank of India during the pre- and post-merger period.

0.01 is lesser than the alpha value that is 0.15 hence Reject the Null Hypothesis.

11. Findings

- ❖ The merger took place is a horizontal merger where two or more banks combine to form a single entity in the same industry or operates and provides similar kind of services to customers.
- ❖ Union bank of India has enhanced its operations and services in post- merger period, it is resulted in rejecting H0 of all 5 parameters of EAGLE Model Framework.
- ❖ Many banks face the challenges like strategic misalignment, over valuation and External economic factors.
- ❖ The positive impact about mergers is that bank have been observed improving their performance and there is gradual increase in financial parameters.

12. Suggestions

- ❖ Consolidated banks have achieved improvement in decreasing the Non-Performing Assets. Decreasing of NPA is a positive sign for the stability of the banks and it is suggested to continue the same.
- ❖ Employees of the banks faced challenges like Job security issues, Adjustment to new system processes and resistance to change. The banks should look after to over come the challenges faced by employees at post-merger phase.
- ❖ All merged banks in this study have potential to perform well but they should look after to implement unique strategies and proper utilization of resources will leads to maximize the profit of the banks.
- ❖ Technological disruption has Provided the opportunity of alter or replace the existing technologies to navigate the banks to attract customers and achieve synergy benefits.

13. Conclusion

The consolidation United Bank of India with Andra Bank & Corporation bank, the merger was performed in the view to compete with private and international banks and to gain synergy benefits. The Goal of this study was to understand the concept of mergers and Acquisition and to analyse the banks' financial performance in Pre- and Post-merger period. This study helped in understanding the under laying reasons for merger of banks and challenges faced by bank in the post-merger phase. At the end, it is concluded that financial performance of Consolidated PSBs has increased gradually in post-merger period compared to pre-merged period.

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